

MIHS Update

Board of Supervisors
Special Study Session
May 5, 2004
1:00 p.m.



MIHS Update

- January 2004 – Maricopa County retained Financial Resource Group (FRG)
- FRG has completed a 45-day assessment
- FRG has confirmed County Administration's concerns regarding MIHS health plans' financial performance



Health Plan Issues

- Even prior to the implementation issues with the health plans' claims payment system ("OAO"), there have been operational and financial concerns, particularly with the SeniorSelect plan.
- The OAO claims payment system has not functioned properly since its implementation in 2002. The system has not:
 - Paid claims accurately or timely
 - Filed accurate encounter data with AHCCCS
 - Filed accurate reinsurance data with AHCCCS
 - Provided data needed to facilitate medical management
 - Provided sufficient accurate data to calculate "incurred but not reported" (IBNR)



What is "IBNR"?

- **"Incurred But Not Reported"** (IBNR) refers to the liabilities that a health plan estimates its members are currently incurring, but have not yet been billed by providers to the health plan. MIHS financial reports also include known medical claims payable.
- **Example:** A plan member goes to a hospital for open heart surgery. The plan will not be billed until several weeks after the patient is discharged. However, in order to accurately project the health plan's financial liability, the health plan must estimate the cost of care based on past expenses.



Audit History

- Health plan IBNR accruals were audited annually by the state Auditor General
- Auditor General did not question adequacy of the reported liability
- Despite the clean audit opinions, several caution signs led County Administration to question the adequacy of the reported liabilities.

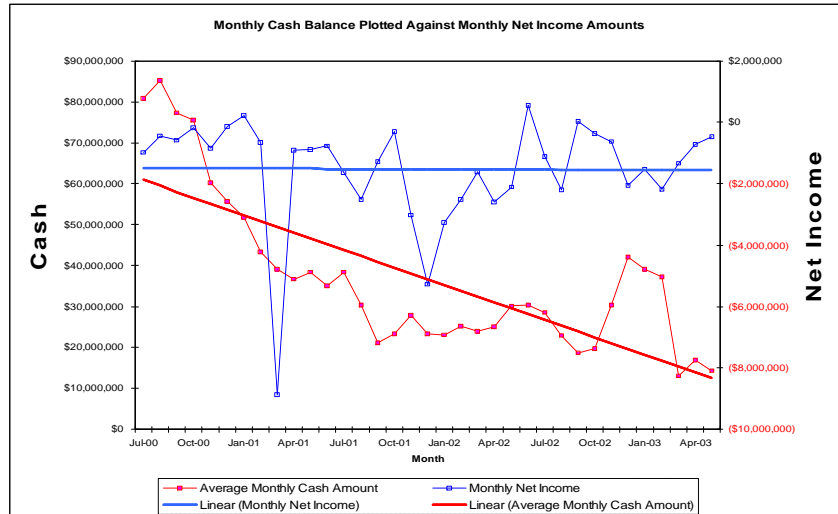


Warning Signs

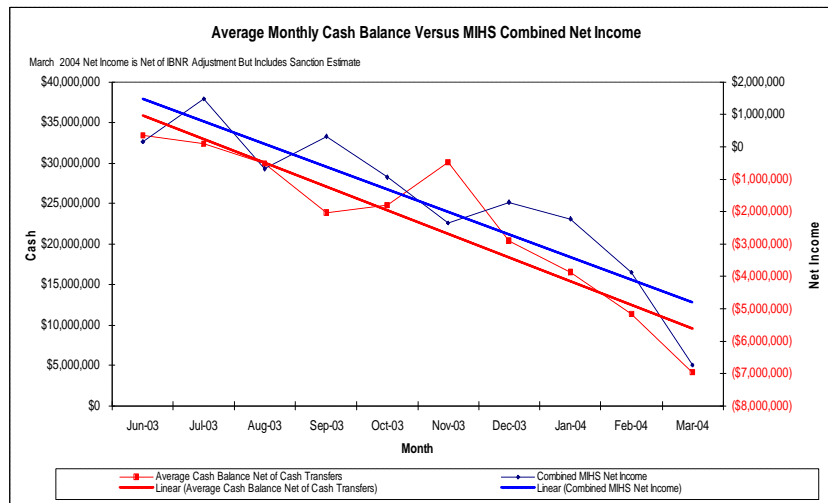
- Declining cash position vs. “flat” reported net income.
- Growth in plan membership vs. IBNR reserves.
- Providers and AHCCCS raised concerns with timeliness and accuracy of payments and submission of encounters.
- However, due to OAO issues, data needed to calculate IBNR were not available.



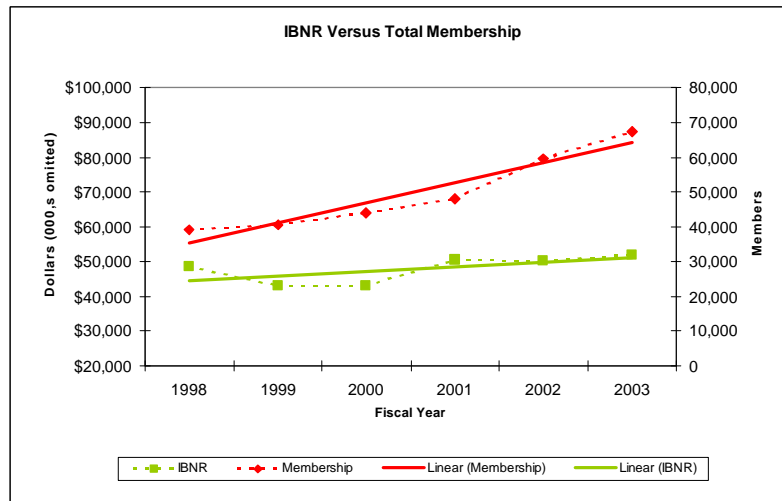
MIHS Cash Position vs. Net Income *The Before Picture*



MIHS Cash Position vs. Net Income *The After Picture*



IBNR Reserve Failed to Keep Pace With Membership Growth



General Fund Reserves for MIHS

*Because of these uncertainties,
the Board of Supervisors identified
a reserve of \$53M in the
FY03 & FY04 county budgets.*



IBNR Accounting Adjustment

- Once it became apparent that OAO could not be fixed, Deloitte Consulting was asked to review the financial statements and historical information surrounding the IBNR calculation.
- They utilized an actuary to review the estimates. This was not done by MIHS management in the past.
- Three methodologies were applied to historical costs to arrive at the potential IBNR/AP accrual:
 - Hybrid Traditional Lag Triangle
 - Trending Using Pre-OAO Data (August 2002 – 2003)
 - Independent factors from a commercial carrier
- Deloitte's methodology and logic was reviewed by FRG and Ernst & Young



March IBNR Accounting Adjustment

- The Deloitte report estimated IBNR liability for all plans should be within a range from \$82M to \$129M.
- Based on this estimate, MIHS has increased IBNR from \$45M to \$82M through the end of March.



MIHS Health Plan Year-to-Date Financial Status*

YTD - March 31, 2004, Net Income (Loss) (\$000s)

AHCCCS Plan	\$	(13,271)
Long Term Care Plan		(28,878)
Senior Select		(10,320)
	\$	<u>(52,469)</u>

**Year-to-date figures reflect \$37 million IBNR and other accounting adjustments.*



Health Plan Solutions

- Selection of TPA vendor to pay claims after 7/1/04.
- County has assigned Mike Schaiberger to lead claims process improvement.
- HealthSelect transferred to Self-Insured Trust (Administered by Total Compensation Department).
- Provided alternative payment strategies for vendors, including “roster billing” for nursing homes.
- Increase emphasis on medical management.
- Continue to analyze and correct accruals for IBNR.
- SeniorSelect losses must be addressed.



System-wide Solutions

- FRG has health plan experienced management, including technology and medical management, in place.
- County general fund will be responsible for funding health plan losses



Health Delivery System Performance Improvement Projects

- New leadership in place
- Recast budget projections for 2005
- Prepare for JCAHO survey in fall, 2004
- Review supply chain and procurement systems
- Improve labor/human resources operations
- Improve information needed to make sound strategic and operational decisions
- Emphasis placed on revenue capture/improvement opportunities



Additional Performance Improvement Projects

Positive news:

- **Dedicated employees and physicians continue to provide excellent patient care**
- Supply chain enhancement should yield significant delivery system savings
- New cash acceleration program is showing strong results after only two months

